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Macroeconomic policy questions: international financial system and development

Report of the Second Committee*

Rapporteur: Ms. Vanessa **Gomes** (Portugal)

I. Introduction

1. The Second Committee held a substantive debate on agenda item 51 (see A/61/420, para. 2). Action on sub-item (b) was taken at the 12th and 31st meetings, on 12 October and 22 November 2006. An account of the Committee's consideration of the sub-item is contained in the relevant summary records (A/C.2/61/SR.12 and 31).

II. Consideration of draft resolutions A/C.2/61/L.3 and A/C.2/61/L.41

2. At the 12th meeting, on 12 October, the representative of South Africa, on behalf of the States Members of the United Nations that are members of the Group of 77 and China, introduced a draft resolution entitled "International financial system and development" (A/C.2/61/L.3), which read:

> "*The General Assembly*,
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> "*Recalling* its resolutions 55/186 of 20 December 2000 and 56/181 of 21 December 2001, both entitled 'Towards a strengthened and stable international financial architecture responsive to the priorities of growth and development, especially in developing countries, and to the promotion of economic and social equity', as well as its resolutions 57/241 of 20 December

* The report of the Committee on this item will be issued in five parts, under the symbol A/61/420 and Add.1-4.

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2002, 58/202 of 23 December 2003, 59/222 of 22 December 2004 and 61/186 of 22 December 2005,

"*Recalling also* the United Nations Millennium Declaration and its resolution 56/210 B of 9 July 2002, in which it endorsed the Monterrey Consensus of the International Conference on Financing for Development, and the Plan of Implementation of the World Summit on Sustainable Development ('Johannesburg Plan of Implementation'),

"*Recalling further* the 2005 World Summit Outcome,

"*Recalling* its resolution 61/265 of 30 June 2006 on the follow-up to the development outcome of the 2005 World Summit, including the Millennium Development Goals and the other internationally agreed development goals,

"*Emphasizing* that the international financial system should further sustain economic growth and support sustainable development and hunger and poverty eradication, while allowing for the coherent mobilization of all sources of financing for development, including the mobilization of domestic resources, international investment flows, official development assistance, external debt relief and an open, equitable, rule-based, predictable and non-discriminatory global trading system,

"*Stressing* the importance of commitment to sound domestic financial sectors, which make a vital contribution to national development efforts, as an important component of an international financial architecture that is supportive of development,

"*Stressing also* that good governance at the international level is fundamental for achieving sustainable development, in this regard reiterating the importance of promoting global economic governance by addressing the international finance, trade, technology and investment patterns that have an impact on the development prospects of developing countries in order to ensure a dynamic and enabling international economic environment, and reiterating also that, to this effect, the international community should take all necessary and appropriate measures, including ensuring support for structural and macroeconomic reform, finding a comprehensive solution to the external debt problem and increasing the market access of developing countries,

"*Stressing* the urgent need to broaden and strengthen the participation of developing countries and countries with economies in transition in international economic decision-making and norm-setting, and to that end stressing the importance of continuing to advance the reform of the international financial architecture, and stressing also that the voting power of all developing countries should be expeditiously increased and protected,

"*Recognizing* the urgent need to enhance the coherence, governance and consistency of the international monetary, financial and trading systems and the importance of ensuring their openness, fairness and inclusiveness in order to complement national development efforts to ensure sustained economic growth and the achievement of the internationally agreed development goals, including the Millennium Development Goals,

"*Emphasizing* the need for additional stable and predictable financing to help developing countries undertake investment plans to achieve

internationally agreed development goals in a more challenging global environment,

"*Recognizing*, in this regard, the value of developing innovative sources of financing from various sources on a public, private, domestic and external basis to increase and supplement traditional sources of financing,

"*Reiterating* the need to strengthen the leadership role of the United Nations in promoting development,

"1. *Takes note* of the report of the Secretary-General;

"2. *Notes* that global economic growth and a stable international financial system, inter alia, can support the ability of developing countries to achieve internationally agreed development goals, including the Millennium Development Goals, and stresses the importance of cooperative efforts by all countries and institutions to cope with the risks of financial instability;

"3. *Emphasizes* that economic growth should be further strengthened and sustained, noting that global economic growth depends on national economic growth and that implementation of sound macroeconomic policies at all levels could significantly contribute to a revitalization of economic growth;

"4. *Invites* the World Bank, the International Monetary Fund, the regional development banks and other relevant institutions to further integrate development dimensions into their strategies and policies, consistent with their respective mandates;

"5. *Notes with great concern* that developing countries as a whole continue to experience a net outflow of financial resources, and reiterates the requests to the Secretary-General, in continuing collaboration with international financial institutions and other relevant bodies, to analyse the range of reasons and consequences for this in his report under this item;

"6. *Underlines* the importance of promoting international financial stability and sustainable growth, and welcomes the efforts undertaken to this end by the International Monetary Fund and the Financial Stability Forum, as well as the consideration by the International Monetary and Financial Committee of ways to sharpen tools designed to promote international financial stability and enhance crisis prevention, inter alia, through an even-handed implementation of surveillance, including at the regional level, and a sharpening of surveillance of capital markets and systemically and regionally important countries, with a view, inter alia, to the early identification of problems and risks, integrating debt sustainability analysis, the fostering of appropriate policy responses, the possible provision of financing and other instruments designed to prevent the emergence or spread of financial crises and further improvements in the transparency of macroeconomic data and statistical information on international capital flows;

"7. *Also underlines* the importance of efforts at the national level to increase resilience to financial risk, stresses in this regard the importance of better assessment of a country's debt burden and its ability to service that debt in both crisis prevention and resolution, and welcomes the ongoing work of the International Monetary Fund on assessing debt sustainability;

"8. *Invites* developed countries, in particular major industrialized economies, to take into account the effect of their macroeconomic policies on international growth and development;

"9. *Recognizes* the need for multilateral surveillance to remain at the centre of crisis prevention efforts and that surveillance should focus not only on crisis-prone countries but on the stability of the system as a whole;

"10. *Reiterates* that measures to mitigate the impact of excessive volatility of short-term capital flows and to improve transparency of and information about financial flows are important and must be considered;

"11. *Notes* the impact of financial crises or risk contagion in developing countries and countries with economies in transition, regardless of their size, and in this regard welcomes the efforts of the international financial institutions, in their support to countries, to continuously adapt their array of financial facilities and resources, drawing on a full range of policies, taking into account the effects of economic cycles, as and where appropriate, having due regard to sound fiscal management and the specific circumstances of each case, so as to prevent and respond to such crises in a timely and appropriate way;

"12. *Underscores* the importance of competitive and inclusive private and public financial markets in mobilizing and allocating savings towards productive investment and thus making a vital contribution to national development efforts and to an international financial architecture that is supportive of development;

"13. *Invites* the international financial and banking institutions to consider enhancing the transparency of risk-rating mechanisms, noting that sovereign risk assessments made by the private sector should maximize the use of strict, objective and transparent parameters, which can be facilitated by high-quality data and analysis, and encourages relevant development institutions, including the United Nations Conference on Trade and Development, to continue their work on this issue, including its potential impact on the development prospects of developing countries;

"14. *Stresses* the importance of strong domestic institutions in promoting business activities and financial stability for the achievement of growth and development, inter alia, through sound macroeconomic policies and policies aimed at strengthening the regulatory systems of the corporate, financial and banking sectors, and also stresses that international cooperation initiatives in those areas should encourage flows of capital to developing countries;

"15. *Underlines* the importance of reaching early agreement on a credible and time-bound package of reforms that would ensure an increase in the voice, representation and effective participation of developing countries in the Bretton Woods institutions, stresses that any package of reforms should include both an early and substantial increase in basic votes and a new quota formula that accurately reflects the relative economic size of developing countries in the world economy, calls upon the Bretton Woods institutions to take further and effective measures, and invites the World Bank and the International Monetary Fund to continue to provide information on this issue, using existing cooperation forums, including those involving Member States;

"16. *Emphasizes* that it is essential to ensure the effective and equitable participation of developing countries in the formulation of financial standards and codes, underscores the need to ensure their implementation, on a voluntary and progressive basis, as a contribution to reducing vulnerability to financial crisis and contagion, and notes that more than one hundred countries have participated in or agreed to participate in the joint World Bank-International Monetary Fund financial sector assessment programme;

"17. *Notes* the proposal to use special drawing rights allocations for development purposes, and considers that any assessment of special drawing rights allocations must respect the Articles of Agreement of the International Monetary Fund and the established rules of procedure of the Fund, which requires taking into account the global need for liquidity at the international level;

"18. *Takes note* of the initial discussion in the International Monetary Fund on a new instrument that would guarantee high-access financial support to developing countries with market access that have strong macroeconomic policies but nonetheless remain vulnerable to shocks, and stresses that such a facility must allow automatic and upfront drawings for eligible countries and that there should be no conditionality associated with the new facility beyond maintaining macroeconomic stability and reducing vulnerabilities;

"19. *Invites* the multilateral and regional development banks and development funds to continue to play a vital role in serving the development needs of developing countries and countries with economies in transition, including through coordinated action, as appropriate, and stresses that strengthened regional development banks and subregional financial institutions add flexible financial support to national and regional development efforts, thus enhancing their ownership and overall efficiency, and are an essential source of knowledge and expertise for their developing-country members;

"20. *Calls for* the continued effort of the multilateral financial institutions, in providing policy advice, technical assistance and financial support to member countries, to work on the basis of nationally owned reform and development strategies, to pay due regard to the special needs and implementing capacities of developing countries and countries with economies in transition and to minimize the negative impacts of the adjustment programmes on the vulnerable segments of society, while taking into account the importance of gender-sensitive employment and hunger and poverty eradication policies and strategies;

"21. *Stresses* the need to continuously improve standards of corporate and public sector governance, including accounting, auditing and measures to ensure transparency, noting the disruptive effects of inadequate policies;

"22. *Requests* the Secretary-General to submit a report to the General Assembly at its sixty-second session on the implementation of the present resolution;

"23. *Decides* to include in the provisional agenda of its sixty-second session, under the item entitled 'Macroeconomic policy questions', the sub-item entitled 'International financial system and development.'"

3. At its 31st meeting, on 22 November, the Committee had before it a draft resolution entitled "International financial system and development" (A/C.2/61/L.41) submitted by the Rapporteur of the Committee, Ms. Vanessa Gomes (Portugal), on the basis of informal consultations held on draft resolution A/C.2/61/L.3.

4. At the same meeting, the Committee adopted draft resolution A/C.2/61/L.41 (see para. 6).

5. In the light of the adoption of draft resolution A/C.2/61/L.41, draft resolution A/C.2/61/L.3 was withdrawn by its sponsors.

III. Recommendation of the Second Committee

6. The Second Committee recommends to the General Assembly the adoption of the following draft resolution:

International financial system and development

The General Assembly,

Recalling its resolutions 55/186 of 20 December 2000 and 56/181 of 21 December 2001, both entitled "Towards a strengthened and stable international financial architecture responsive to the priorities of growth and development, especially in developing countries, and to the promotion of economic and social equity", as well as its resolutions 57/241 of 20 December 2002, 58/202 of 23 December 2003, 59/222 of 22 December 2004 and 60/186 of 22 December 2005,

Recalling also the United Nations Millennium Declaration[1] and its resolution 56/210 B of 9 July 2002, in which it endorsed the Monterrey Consensus of the International Conference on Financing for Development[2] and the Plan of Implementation of the World Summit on Sustainable Development ("Johannesburg Plan of Implementation"),[3]

Recalling further the 2005 World Summit Outcome,[4]

Recalling its resolution 60/265 of 30 June 2006 on the follow-up to the development outcome of the 2005 World Summit, including the Millennium Development Goals and the other internationally agreed development goals,

Emphasizing that the international financial system should further sustain economic growth and support sustainable development and hunger and poverty eradication, while allowing for the coherent mobilization of all sources of financing for development, including the mobilization of domestic resources, international investment flows, official development assistance, external debt relief and an open, equitable, rule-based, predictable and non-discriminatory global trading system,

Stressing the importance of commitment to sound domestic financial sectors, which make a vital contribution to national development efforts, as an important component of an international financial architecture that is supportive of development,

Stressing also that good governance at the international level is fundamental for achieving sustainable development, in this regard reiterating the importance of promoting global economic governance by addressing the international finance, trade, technology and investment patterns that have an impact on the development prospects of developing countries in order to ensure a dynamic and enabling international economic environment, and reiterating also that, to this effect, the

[1] See resolution 55/2.

[2] *Report of the International Conference on Financing for Development, Monterrey, Mexico, 18-22 March 2002* (United Nations publication, Sales No. E.02.II.A.7), chap. I, resolution 1, annex.

[3] *Report of the World Summit on Sustainable Development, Johannesburg, South Africa, 26 August-4 September 2002* (United Nations publication, Sales No. E.03.II.A.1 and corrigendum), chap. I, resolution 2, annex.

[4] See resolution 60/1.

international community should take all necessary and appropriate measures, including ensuring support for structural and macroeconomic reform, finding a comprehensive solution to the external debt problem and increasing the market access of developing countries,

Reaffirming the commitment to broaden and strengthen the participation of developing countries and countries with economies in transition in international economic decision-making and norm-setting, stressing to that end the importance of continuing efforts to reform the international financial architecture, and acknowledging the need for continued discussion on the issue of voting power of developing countries in the Bretton Woods institutions, which remains a concern,

Recognizing the urgent need to enhance the coherence, governance and consistency of the international monetary, financial and trading systems and the importance of ensuring their openness, fairness and inclusiveness in order to complement national development efforts to ensure sustained economic growth and the achievement of the internationally agreed development goals, including the Millennium Development Goals,

Emphasizing the need for additional stable and predictable financing to help developing countries undertake investment plans to achieve internationally agreed development goals,

Recognizing, in this regard, the value of developing innovative sources of financing from various sources on a public, private, domestic and external basis to increase and supplement traditional sources of financing,

Welcoming the contribution to the mobilization of resources for development through innovative financing initiatives taken by groups of Member States,[5]

Reiterating the need to strengthen the leadership role of the United Nations in promoting development,

1. *Takes note* of the report of the Secretary-General;[6]

2. *Notes* that global economic growth and a stable international financial system, inter alia, can support the ability of developing countries to achieve internationally agreed development goals, including the Millennium Development Goals, and stresses the importance of cooperative efforts by all countries and institutions to cope with the risks of financial instability;

3. *Emphasizes* that economic growth should be further strengthened and sustained, noting that global economic growth depends on national economic growth and that implementation of sound macroeconomic policies at all levels could significantly contribute to a revitalization of economic growth;

4. *Invites* the World Bank, the International Monetary Fund, the regional development banks and other relevant institutions to further integrate development dimensions into their strategies and policies, consistent with their respective mandates, and to fully implement the principles stated in those strategies and policies, in particular the objectives of pro-poor growth and poverty reduction;

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[5] Including the International Drug Purchase Facility-UNITAID and the International Finance Facility for Immunization, and noting the commitment to launch a pilot project within the Advance Market Commitment initiative in 2006.

[6] A/61/136.

5. *Notes* that developing countries as a whole continue to experience a net outflow of financial resources, and requests the Secretary-General, in continuing collaboration with international financial institutions and other relevant bodies, to analyse the range of reasons and consequences for this in his report under this item;

6. *Also notes* that some developing countries have net inflows of financial resources, and requests the Secretary-General, in continuing collaboration with international financial institutions and other relevant bodies, to analyse the range of reasons and consequences for this in his report under this item;

7. *Underlines* the importance of promoting international financial stability and sustainable growth, and welcomes the efforts undertaken to this end by the International Monetary Fund and the Financial Stability Forum, as well as the consideration by the International Monetary and Financial Committee of ways to sharpen tools designed to promote international financial stability and enhance crisis prevention, inter alia, through an even-handed implementation of surveillance, including at the regional level, and a sharpening of surveillance of capital markets and systemically and regionally important countries, with a view, inter alia, to the early identification of problems and risks, integrating debt sustainability analysis, the fostering of appropriate policy responses, the possible provision of financing and other instruments designed to prevent the emergence or spread of financial crises and further improvements in the transparency of macroeconomic data and statistical information on international capital flows;

8. *Also underlines* the importance of efforts at the national level to increase resilience to financial risk, and in this regard welcomes progress that has been made in recent years, stresses the importance of better assessment of a country's debt burden and its ability to service that debt in both crisis prevention and resolution, and welcomes the ongoing work of the International Monetary Fund on assessing debt sustainability;

9. *Recognizes* the need for multilateral surveillance to remain at the centre of crisis prevention efforts and that surveillance should focus not only on crisis-prone countries but also on the stability of the system as a whole;

10. *Reiterates* that measures to mitigate the impact of excessive volatility of short-term capital flows and to improve transparency of and information about financial flows are important and must be considered;

11. *Notes* the impact of financial crises or risk contagion in developing countries and countries with economies in transition, regardless of their size, and in this regard welcomes the efforts of the international financial institutions, in their support to countries, to continuously adapt their array of financial facilities and resources, drawing on a full range of policies, taking into account the effects of economic cycles, as and where appropriate, having due regard to sound fiscal management and the specific circumstances of each case, so as to prevent and respond to such crises in a timely and appropriate way;

12. *Underscores* the importance of competitive and inclusive private and public financial markets in mobilizing and allocating savings towards productive investment and thus making a vital contribution to national development efforts and to an international financial architecture that is supportive of development;

13. *Invites* the international financial and banking institutions to consider enhancing the transparency of risk-rating mechanisms, noting that sovereign risk assessments made by the private sector should maximize the use of strict, objective and transparent parameters, which can be facilitated by high-quality data and analysis, and encourages relevant development institutions, including the United Nations Conference on Trade and Development, to continue their work on this issue, including its potential impact on the development prospects of developing countries;

14. *Stresses* the importance of strong domestic institutions in promoting business activities and financial stability for the achievement of growth and development, inter alia, through sound macroeconomic policies and policies aimed at strengthening the regulatory systems of the corporate, financial and banking sectors, and also stresses that international cooperation initiatives in those areas should encourage flows of capital to developing countries;

15. *Notes* the annual meeting of the International Monetary Fund, in September 2006, stresses the importance of early agreement on a credible and time-bound package of quota and voice reforms in the Fund, reiterates the need to effectively address the issue of enhancing the voice and participation of developing countries in the Bretton Woods institutions, encourages the Bretton Woods institutions to take further and effective measures, and invites the World Bank and the Fund to continue to provide information on this issue, using existing cooperation forums, including those involving Member States;

16. *Emphasizes* that it is essential to ensure the effective and equitable participation of developing countries in the formulation of financial standards and codes, underscores the need to ensure their implementation, on a voluntary and progressive basis, as a contribution to reducing vulnerability to financial crisis and contagion, and notes that more than one hundred countries have participated in or agreed to participate in the joint World Bank-International Monetary Fund financial sector assessment programme;[7]

17. *Notes* the proposal to use special drawing rights allocations for development purposes, and considers that any assessment of special drawing rights allocations must respect the Articles of Agreement of the International Monetary Fund and the established rules of procedure of the Fund, which requires taking into account the global need for liquidity at the international level;

18. *Also notes* the initial discussion in the International Monetary Fund on a new liquidity instrument that would enable high-access financial support to developing countries that have market access and strong economic policies but nonetheless remain vulnerable to shocks;

19. *Invites* the multilateral and regional development banks and development funds to continue to play a vital role in serving the development needs of developing countries and countries with economies in transition, including through coordinated action, as appropriate, and stresses that strengthened regional development banks and subregional financial institutions add flexible financial support to national and regional development efforts, thus enhancing their ownership and overall efficiency, and are an essential source of knowledge and expertise for their developing country members;

[7] See A/59/218 and Corr.1, para. 15.

20. *Calls for* the continued effort of the multilateral financial institutions, in providing policy advice, technical assistance and financial support to member countries, to work on the basis of nationally owned reform and development strategies, to pay due regard to the special needs and implementing capacities of developing countries and countries with economies in transition and to minimize the negative impacts of the adjustment programmes on the vulnerable segments of society, while taking into account the importance of gender-sensitive employment and hunger and poverty eradication policies and strategies;

21. *Stresses* the need to continuously improve standards of corporate and public sector governance, including accounting, auditing and measures to ensure transparency, noting the disruptive effects of inadequate policies;

22. *Requests* the Secretary-General to submit a report to the General Assembly at its sixty-second session on the implementation of the present resolution;

23. *Decides* to include in the provisional agenda of its sixty-second session, under the item entitled "Macroeconomic policy questions", the sub-item entitled "International financial system and development".